



## MINUTES

**Board Members Present:** Councilmember Tim Burgess; Robert Harvey; David Stewart; Glen Lee; Lou Walter via phone; Sherry Crawford; Jean Becker

**SCERS Staff Present:** Cecelia M. Carter; Tony Smith; Ben Kalman; Jeff Davis; Claire Foster; Beverly Yapp; Lisa Carns

**Others Present:** Mike Monaco, Song Mondress Law Firm; Carlton Seu, Seattle City Attorney's Office; John McCoy, Legislative Central Staff; Tom Kirn, FAS; Jessica Wang, FAS; Steve Viney, Retiree; Ken Yaeger, Retiree

Councilmember Burgess, Board Chair called the meeting to order at 9:01am. Councilmember Burgess also announced the meeting needed to conclude by 11am.

**Public Comment:** Mr. Kenneth Edward Yaeger stated he was going to announce his candidacy for Mayor on Friday, March 15, 2013.

### Administrative Consent Agenda

#### Minutes:

Provided in the Retirement Board packet was the minutes from the February 14, 2013 Retirement Board regular meeting.

### Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

Service	\$11,505,027.50
Beneficiary	\$907,061.24
Disability	\$74,781.64
Pension Payroll – PPE February 28, 2013	<u>\$12,486,870.38</u>

Office Payroll – PPE February 12 and 26, 2013	\$97,987.19
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Vouchers Processed – February 28, 2013	\$361,105.12
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\*Expert and Consultant Services – \$72,810.60

\*Investment Management Fees – \$149,088.68

\*\$902,913.02 paid in 2013 accrued to 2012 (4Q fees)

\*Interdepartmental Charges - \$97,776.75

\*Miscellaneous - \$41,429.09

Ms. Cecelia Carter, SCERS Executive Director highlighted that the 4Q 2012 fees accrued in the amount of \$902,913.02 were paid in February

### Immediate Withdrawals of Contributions for the month of February 2013:

Member	Department Name	Position
Adams, Barbara J	SDOT	Signal Elctn
Becken, Guy P	Parks	Edu Prgm Asst
Bentz, Jeffrey S	DoIT	Mgmt Sys Anylst
Betts, Michael	Seattle Center	Event Booking Rep Sr
Cameron, Nancy E	SPU	Strat Advr 2
Davis, Brian J	Seattle Center	HVAC Tech
Faulkner, Kevin Dale	Parks	Lifeguard Sr
Fulton, Andrew Y	Parks	Lifeguard
Higa, Linda H	DPD	Acct Tech II
Irwin, Susan E	Library	Librarian
Jenkins, Rashad M	Police	Comms Dispatch I
Lanier, Matthew R	SDOT	Accountant

Member	Department Name	Position
Liang, Jane Ning Xiang	Personnel	Strat Advr 2
Luttrell, Keith A	Police	Parking Enf Offcr
Mueller, Karyn A	SPU	Civil Engr Sr
Noiel, Unika V	Personnel	Personnel Anlyst Asst
Powell, JoAnne	DoIT	Info Tech
<b>Rickey, Alice R</b>	<b>Library</b>	<b>Librarian</b>
Rogers, Jay A	Muni Court	Marshall
Toland, Andrea J	SPU	Strat Advr I
Vimahi, Malakai T	SPU	Mtc Wkr
Zamperini, Kathleen R	SDOT	Acct Tech II

Bold entries above indicate refund payout made to beneficiary of a member dying while in active status.

**Withdrawals for a total of: \$384,576.13**

#### **Ratification of Service Retirements for the month of February**

Retiree	RetireDt	Age	Years	Days	DeptName	Position
<b>Almachar, Richard M</b>	<b>1/15/2013</b>	<b>66</b>	<b>40</b>	<b>9</b>	<b>King County</b>	<b>Admin Spec II</b>
Anderson, Kathleen S	1/23/2013	65	23	117	SDOT	Transport Plnr, Sr
Berg, Mark A	1/2/2013	62	27	318	City Light	Maint Lead Wkr
Carlson, Judith A	1/8/2013	64	19	121	FAS	Cust Serv Rep
<b>Carmichael, Douglas A</b>	<b>1/30/2013</b>	<b>63</b>	<b>38</b>	<b>231</b>	<b>City Light</b>	<b>Pwr Marketer</b>
Chan, Yvonne M	1/15/2013	60	23	320	FAS	Personnel Spec Sr
Eng, Nancy M	1/8/2013	62	35	34	City Light	Info Tech Prof B
Franco, Jack L	1/15/2013	68	9	180	Parks	Laborer
Harvey, Warrenette R	1/30/2013	63	24	136	SPU	Util Acct Rep I
Henderson, Robert J	1/5/2013	67	12	71	City Light	Safety & Health Spec Sr
McQuillin, Michael J	1/28/2013	63	10	309	Vested	Vested
Monni, Florence	1/8/2013	65	22	345	Personnel	Admin Staff Asst
Neiford, Joseph O	1/8/2013	62	26	340	Parks	Landscape Architect Sr
Newman, Bonnie E	1/16/2013	65	30	58	Police	Admin Spec II
Pfotenhauer, Jeanette	1/11/2013	65	6	162	Vested	Vested
Poole, Alfred	1/19/2013	72	11	143	Human Services	Executive I
Pruitt, Fred A	1/30/2013	60	24	159	SPU	Constr & Maint Equip Op Sr
<b>Puderbaugh, Velma E</b>	<b>1/4/2013</b>	<b>66</b>	<b>42</b>	<b>251</b>	<b>Library</b>	<b>Librarian</b>
<b>Richardson, Mark F</b>	<b>1/9/2013</b>	<b>60</b>	<b>33</b>	<b>189</b>	<b>Parks</b>	<b>Rec Attendant</b>
Richmond, Scott E	1/30/2013	54	32	287	City Light	Auto Mechanic
Smith Jr, Franklin H	1/11/2013	62	8	229	Vested	Vested
Stewart, Annemarie C	1/30/2013	51	31	155	Parks	Personnel Spec Sr
<b>Stieglitz, Lawrence J</b>	<b>1/16/2013</b>	<b>62</b>	<b>34</b>	<b>194</b>	<b>City Light</b>	<b>Info Tech Prof B</b>
Tong, Mimi L	1/30/2013	62	20	99	City Light	Acct Tech II
Trujillo, Teresa M	1/16/2013	65	31	115	SPU	Training & Ed Coordinator
Wilkinson, LaRita	1/8/2013	58	37	167	Parks	Maint Laborer
Wilson, Linda A	1/23/2013	65	18	63	Seattle Center	Manager 1
Wyckoff, Richard V	1/9/2013	71	31	9	FAS	Info Tech Prof
Yoshimi, Diane H	1/7/2013	52	20	217	Vested	Vested

For the month of February 2013: : 52 new Members entered the System, 37 terminations, 29 Members retired in the System, 20 Members removed (\$32,824.22), 3 D/E Option, 4 Option F, 5 over 60% benefit.

**Motion:** Upon motion by Tim Burgess, seconded by David Stewart, the Retirement Board approved the below items contained in the Administrative Consent Agenda.

- Minutes of the February 14, 2013, Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of February 2013

Mr. Glen Lee arrived at 9:05am.

### **Investment Committee Report**

The Investment Committee met on February 28, 2013 at 12 noon at the Seattle City Employees' Retirement System Office, 720 Third Avenue, Suite 900 (Pacific Building). Committee members present: Lou Walter, Chair, Bob Harvey, Glen Lee; David Stewart. Other Board members present: Jean Becker; Sherry Crawford. Advisory Committee present: Russell Powell; John Comerford; Dwight McRae; Joseph Boateng (via phone). Staff Present: Cecelia Carter, SCERS Executive Director; Tony Smith; Ben Kalman; Jeff Davis; Carlton Seu, Seattle City Attorney's Office; Lisa Carns; Beverly Yapp. Others present: Neil Rue, PCA; David Sancewich, PCA; Mike Moy, PCA; Andrew Bratt, PCA; John McCoy, Legislative Central Staff; George Emerson, FAS; Zone Montoya, Personnel Department; Jessica Wang, FAS; Steve Viney, Retiree.

Mr. Tony Smith, SCERS Staff provided the Board with a brief overview of the items discussed at the Investment Committee on February 28, 2013:

**SCERS Performance Report for 4Q 2012:** The SCERS Total Portfolio returned 2.88% for the quarter ending 12/31/2012, beating the policy benchmark by 39 basis points, primarily due to security selection in public Equities, U.S. Fixed Income, and the Real Return asset classes. During the 1-year period, the Total Portfolio returned 14.00%, trailing the policy benchmark, which returned 14.22%. Over the 3-year period, the Total Portfolio returned 8.87%, outperforming the policy benchmark, which was up 8.66%. Despite trailing over longer time periods relative to its peers, near-term performance placed the Total Portfolio in the top quartile for the quarter and second quartile for the trailing 1-year time period.

**2013 Work Plan:** Neil Rue from PCA presented a tentative work plan to the Investment Committee. The schedule outlined tasks and projects that would both be ongoing refinements, as well as newer concepts that Staff and PCA believe are worthy of further research and discussion. The Investment Staff and Consultant are working to complete the (1) Core Real Estate search; (2) the process of implementing a tactical overlay facility for SCERS; and (3) continuing the discussion on strategically addressing risk in the portfolio that cannot be hedged away by diversification.

Board members questioned the direction of revisiting asset allocation, expediting the asset liability review, revising the work plan. SCERS Staff reported one of their goals is to review the work plan.

**SCERS Expected Portfolio Return:** Neil Rue from PCA presented a memo to the Investment Committee that reflected their 10-year expected return estimate for SCERS' portfolio based on PCA's updated 2013 capital markets assumptions. After accounting for SCERS' strategic asset allocation, the expected portfolio return will decline to 6.8%, which is lower than the actuarial assumed rate of return of 7.75%. Because risk appetite is a component of the expected rate of return and any decline in expected return has to ultimately be addressed by the plan sponsor, the Investment Committee made it clear that they don't want to delay the process in assessing strategic asset allocation. This coincides with investment staff's recommendation to implement a tactical overlay program and also staff's work in developing a strategic solution to mitigating risk in the portfolio as soon as possible.

There was dialogue from the Board about analysis on lowering the expected return. Lowering the expected return puts pressure on contributions.

**Portfolio Protection Education 101:** Neil Rue from PCA presented a slide book on addressing portfolio protection. There are differences between PCA and investment staff's views. The agreement is that in addition to implementing an overlay facility, it would be prudent to develop a strategically oriented solution in managing systematic or market risk (which cannot be diversified away through traditional asset allocation) within the portfolio. Mr. Jack Hansen from the Clifton Group then led an educational presentation on overlay solutions and the role they can play in performance enhancement and risk management. The Investment Committee asked what the purpose would be in continuing the conversation on strategic risk management if

SCERS had the tactical facility in place. Jack reiterated that diversification alone cannot remove systematic or market risk from the portfolio.

Mr. Smith offered additional education on overly systems and requested that the Board let him know if they are interested.

PIMCO Pathfinder Update: David Sancewich from PCA provided a brief update on the management changes at PIMCO. On January 23, 2013, PIMCO announced that Neel Kashkari, the head of PIMCO's global equity division, was leaving the firm to run for public office. While the change created some organizational uncertainty, it did not lead to any departures in terms of the investment analysts or portfolio managers that are involved in the strategy. They recommended that SCERS continue to monitor the account closely for the next 6 to 12 months.

Workout Portfolio Update: Mike Moy and Andrew Bratt from PCA presented an updated memo on the workout portfolio & other assets. After engaging with various managers in the secondary markets, PCA found that SCERS' collective value in real estate and non-real estate assets would be insufficient to garner any real interest in the secondary market. Further, any potential sale would likely result in a substantial discount to current NAV levels and would require time from staff and consultant that would be better spent on other important items. Because PCA doesn't have insight into the percentage of assets that may or may not be recovered, they recommend that all of the assets, real estate and non-real estate alike, be carried at realistic values in SCERS' financial statements and be allowed to harvest until final distribution.

Mike Moy and Andrew Bratt also presented a brief update on SchemaLogic, a direct holding in SCERS' private equity allocation. Schemalogic was distributed in-kind back in 2011, and despite numerous attempts to make contact and inquire about SCERS' interest and the transaction, Schemalogic and the acquirer were unresponsive. Through recent investigative work, PCA discovered that the consideration that was received in the transaction sale of Schemalogic was insufficient to compensate Schemalogic shareholders. PCA recommended SCERS write off the entire balance for this investment. The Investment Committee agreed and approved.

House Bill 1899: Ms. Cecelia Carter, SCERS Executive Director reported to the Investment Committee that House Bill 1899 was introduced on February 15, 2013 and a public hearing was held on February 21, 2013. Ms. Carter outlined the bill would permit first class cities (i.e. Seattle, Tacoma, Spokane) the option to direct the investment of pension assets over to the Washington State Investment Board.

Councilmember Burgess stated that House Bill 1899 was a bill introduced that relates to investing the assets of the first class cities' retirement systems into the Washington State Retirement System for management. The House Bill was withdrawn at the City's Request. There was no action taken on the Bill.

Investment Accounting Summary Report for January 2013: As of January 31, 2013, the Total Portfolio had a market value of \$2.008 billion. Staff reported that Research Affiliates and PIMCO were funded for the Active Developed Markets mandates as of the middle of February. With the exception of Private Equity, the portfolio was within its target weights for all asset classes. Staff also reported that the fund received approximately \$600,000 in distributions during the month.

**Motion:** Upon motion by Tim Burgess, seconded by Bob Harvey, the Retirement Board accepted the Investment Committee consent agenda.

**Executive Director Report:**

Ms. Carter, SCERS Executive Director reported the Pension Consulting Alliance contract one-year extension is complete. An approval is needed from the Board.

**Motion:** Upon motion by Tim Burgess, seconded by Glen Lee, the Retirement Board approved the Pension Consultant Alliance contract one year extension.

Ms. Carter reported the Board and Staff first strategic planning session was held on February 22<sup>nd</sup>. The meeting was productive but a follow-up session is needed. The second session is scheduled for Friday, April 12<sup>th</sup> from 1-4pm in Seattle City Employees' Retirement System Board Room.

Ms. Carter reported that SCERS staff will present the SCERS Performance Report to the Government, Performance and Finance committee on March 20<sup>th</sup> at 9:30am in Council Chambers. Participating in the presentation are Cecelia Carter, SCERS Executive Director; Jean Becker, SCERS Board Member; Tony Smith, SCERS Staff; and Neil Rue, Pension Consulting Alliance.

The Board Active Seat currently held by Ms. Jean Becker is up for election this year. Nominations open April 11<sup>th</sup> at 8am and close April 18<sup>th</sup> at 5pm. The election notification is posted on SCERS' website. The notification will also be posted in the Daily Commerce Journal on March 22<sup>nd</sup>, 27<sup>th</sup>, April 2<sup>nd</sup> and April 5<sup>th</sup>.

Mr. Jeff Davis, SCERS staff provided a status overview on the following Operations projects:

Completed Tasks:

- (1) The member statements were processed and mailed
- (2) SPU and SCL Audit information requests were prepared and distributed

Ongoing Tasks:

- (1) Collecting information for the Milliman Actuarial report
- (2) The financial audit is currently being conducted by CliftonLarsonAllen
- (3) SCERS contribution of data to the City's CAFR is in progress

Ongoing Initiatives:

- (1) Staff Tools: The revised template for cash withdraws and rollovers to make them consistent with the new option G template are complete.
- (2) Buybacks: Continuing to work with staff to evaluate all aspects of different buyback types.
- (3) Cash Management: Completed the framework of the model.

New Initiative:

- (1) Communication Audit: Review all types of communications to members or potential members (letters, forms, statements, emails, website)
- (2) Evaluate and revise communications based on (a) usefulness – are we asking for information we already have; (b) timeliness – are we providing members information with enough time to act; (c) accuracy; and (d) clarity

Technology:

Mr. Davis reported that he and Claire Foster, SCERS staff evaluated the existing RFP. The purpose of the RFP is to evaluate SCERS' operational needs and provide assistance in developing a future RFP to get a new Pension System. Mr. Davis and Ms. Foster have been working with the City's Purchasing Department. Mr. Davis and Ms. Foster plan to report to the Board during the third quarter an analysis of different system options. Board members are welcomed to participate in the vendor selection process. Mr. Walter stated he would like to participate in the selection process.

Mr. Davis stated he would keep the Board updated on each of the ongoing tasks.

Ms. Becker, Board Member commented that she is happy to hear there is going to be a communication audit. She asked that staff reach out to members for feedback. Mr. Davis stated the communication audit is in the early stages and part of the process is to ask members to complete a survey.

Ms. Claire Foster provided the Board with an IT operations update on the following projects:

Operational Improvements: Finance and Administration Services IT Division operations assessment is wrapping up. The finding will be reviewed within the next week or two. Necessary plans will be implemented.

Market Survey – Pension Administration Systems: Crystal Roncek from Personnel/Deferred Comp will be assisting SCERS staff with the planning and coordination of a market survey. The purpose of the survey is to educate SCERS staff and the Board on the current trends, offerings, and industry leaders in the Pension Administration System/Defined Benefit Plan workspaces. The information will be used to inform decisions regarding options and approach to implementation. The Board members will be sent invites to the demonstrations.

RBase Replacement / Port to Oracle: The team is on schedule to complete the proof of concept and have the technical design finalized by the end of March. The team has ported a copy of the existing RBase database to the Oracle HRIS Development environment and started prototyping of new user screens. The next steps are (1) complete proof of concept and prototyping sessions; (2) scope the development effort; and (3) develop implementation plan and schedule.

Mr. Davis commented there has been a lot of progress made with the RBase project in a short amount of time.

## **New Business**

**Governance Committee Report** : Ms. Becker reported the Governance committee has met several times over the last three months in efforts to develop Policy Charters for the following:

1. Board
2. Board Chair
3. Board Secretary
4. Board Treasurer
5. Executive Director
6. Administrative Committee

Ms. Becker stated the purpose in developing the charters is to provide the Board with clarity on its roles and responsibilities beyond the Seattle Municipal Code and to develop a Board of the 21<sup>st</sup> Century. The developed charters will provide more documented detail for the Board to work more efficiently and effectively.

The Board briefly reviewed each draft charter Ms. Becker presented. Ms. Becker asked the Board members for their comments regarding the draft charters by March 28, 2013.

Ms. Becker and Mr. Mike Monaco, with Song Mondress Law Office will review the feedback provided and bring back the final version of each charter for the Board's approval.

Mr. Monaco stated he will review and determine if there are any revisions needed to the Seattle Municipal Code and report back the finding to the Board. If revisions are necessary, staff will work with the Legislative Office.

Ms. Becker stated the goal is to submit the Charters to the Board for approval at the April Board meeting.

Councilmember Burgess commented the Governance Committee has done excellent work.

Ms. Becker proposed once the charters are adopted that the charters be reviewed on an annual basis.

Councilmember Burgess commented the Board represents members of the Retirement System. It's the Board's responsibility to advocate for the members, defend and protect the system, promote the value of a public pension system, and protect public employees. Councilmember Burgess requested the statement be molded in the Seattle City Employees' Retirement System mission statement.

There was discussion regarding an Investment Committee charter. The roles and responsibilities are outlined in the Investment Policy. It was agreed that the Executive Director is responsible for implementing policy decisions.

There was further discussion about a Finance Policy. The Governance Committee recommended the Administrative Committee charter include finance, operations and member services policies for the department.

Ms. Becker recommended from sub-committee discussions that an Audit Committee be formed to oversee the annual review of the Department's financial statements.

The deliverables for the April Board meeting is to have the charters completely reviewed and revised for final format and any necessary Seattle Municipal Code changes outlined.

Councilmember Burgess asked if there was any other business the Board wishes to discuss before entering into Executive Session.

Mr. Lou Walter acknowledged the service Mr. Richard McIver provided to the Seattle City Employees' Retirement System Board of Administration as Board Chair. Councilmember Burgess also acknowledged Mr. McIver and his contributions to the City of Seattle. Mr. McIver (former City Councilmember) passed away on March 9, 2013.

Councilmember Burgess announced at 10:05am the Board would go into executive session to discuss a legal and personnel until 11am.

The Board resumed to public session at 10:50am.

There were no motions.

The meeting was adjourned at 10:50am.

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David L. Stewart, Secretary